

## Deregulating religion: the economics of church and state

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Veröffentlichungsversion / Published Version  
Sammelwerksbeitrag / collection article

### Empfohlene Zitierung / Suggested Citation:

Iannaccone, L. R., Finke, R., & Stark, R. (1997). Deregulating religion: the economics of church and state. In K.-S. Rehberg (Ed.), *Differenz und Integration: die Zukunft moderner Gesellschaften ; Verhandlungen des 28. Kongresses der Deutschen Gesellschaft für Soziologie im Oktober 1996 in Dresden ; Band 2: Sektionen, Arbeitsgruppen, Foren, Fedor-Stepun-Tagung* (pp. 462-466). Opladen: Westdt. Verl. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-138647>

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Warner, R. Stephen 1993, Work in Progress toward a New Paradigm for the Sociological Study of Religion in the United States. In: *American Journal of Sociology* 98: 1044-1093

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#### 4. Deregulating Religion: The Economics of Church and State

*Laurence R. Iannaccone, Roger Finke and Rodney Stark*

##### *I. Introduction*

Traditional religious research fails to recognize religion as a market phenomenon. It especially overlooks supply-side factors that shape the incentives and opportunities of religious firms, emphasizing instead demand-side shifts in the perceptions, tastes, and needs of consumers. This paper reviews the effects of government actions that alter religious supply – a longer version appears in *Economic Inquiry* 40(2), April 1997.

We find that simple deregulation lies at the root of numerous religious trends and events. America's exceptionally high levels of church attendance and Sweden's exceptionally low levels stem from the former country's competitive religious market and the latter country's state-sponsored religious monopoly. Japan's post-war shift to a free religious market led to an explosion of new religions. And the »cult phenomenon« of the 1960s and 70s had more to do with changed U.S. immigration laws than a transformed Western »consciousness.« Thus, the history of religion is strongly influenced by the structure of religious markets, and market forces continue to shape its future.

##### *II. Adam Smith's critique of established religion*

Adam Smith (1965: 740-766) laid the foundation for an economics of religion more than two hundred years ago. In a largely ignored chapter of *The Wealth of Nations*, Smith argued that self-interest motivates clergy just as it does secular producers, that market forces constrain churches just as they do secular firms; and that the benefits of competition, the burdens of monopoly, and the hazards of government regulation affect religion like any other sector of the economy.

Several years ago, Iannaccone (1991) attempted a simple test of Smith's assertions using contemporary data from 17 developed, Western countries. Although the available data were relatively crude, Smith's predictions carry the day. Among Protestants, at least, church attendance and religious belief both are higher in countries with numerous competing churches than in countries dominated by a single monopoly church. The pattern is statistically significant and visually striking. Church attendance rates, frequency of prayer, belief in God, and virtually every other measure of piety are higher in countries with greater levels

of religious pluralism. The relationship remains strong even after controlling for income, education, or urbanization.

The following examples illustrate causes beneath this pattern and establish two key results. First, as in secular markets, regulation can critically affect outcomes. Second, the vitality of a religious market depends upon its competitiveness.

### *III. The socialized church of Sweden*

A single state-run (Lutheran) Church dominates the religious market of every Scandinavian country. Following Smith, it comes as no surprise that these countries also manifest exceptionally low rates of religiosity.

Swedish Lutheranism epitomizes the problems of a subsidized state church. Since its inception, the Church of Sweden has enjoyed the full protection of the state. Swedish citizens obtain automatic Church membership at birth and as recently as 1951 could not relinquish their membership except to join a »free« church. Even today, when only 2% of Swedes attend the Church's Sunday services, social pressures are such that 95% retain official membership and 70% have their children baptized in the Church.

Like any massive state concern, the Church runs on tax funds. The state imposes a special Church tax, and even those not belonging to the state church must pay 40% of this assessment. Direct contributions from worshipers amount to almost nothing. Tax moneys cover the cost of church construction and maintenance. They also pay the (relatively high) salaries of the Lutheran clergy, who work as civil servants integrated into the ordinary government bureaucracy. Not surprisingly, the Church suffers from high costs and excess capacity. Rydenfeldt (1985: A-25) reports that »[f]requently services in large temples with room for hundreds of people are attended by five or 10 individuals,« yet such churches maintain large staffs »with the ability to serve hundreds. Only a very small fraction of capacity is ever utilized.«

State intervention is the price that the Church must pay state protection. Numerous special laws regulate the Church's role, and political interference has increased since the Social Democratic Party came to power in the 1930s. The Church appears to have purchased continued support from this traditionally atheistic Party by subjugating religious concerns to political demands. Gustafsson (1990: 114) details the resulting, »nearly total takeover of the power functions within the Church by the political parties.«

Through all this, the spiritual mission of the church has received little attention. Indeed, many claim that state subsidized monopoly, administered by a largely atheistic government, has turned the Church of Sweden into a spiritual wasteland, as evidenced by steadily declining rates of Sunday worship, Sunday school attendance, Bible reading, and prayer.

### *IV. Freeing the market: American religion since 1776*

Although the U.S. is now very much Sweden's opposite, both in terms of its unregulated religious diversity and its high level of religious involvement, it did not begin as a bastion of religious freedom. Most colonies had their own established churches, and several states

maintained their own established churches even after the Constitution forbade the establishment of a *national* church. Yet when religious deregulation finally took hold in the late 18<sup>th</sup> and early 19<sup>th</sup> century, its effects were striking (Finke and Stark 1992).

Competition led to a new, more diverse, and much larger religious market. The denominations that had previously enjoyed official support – the Congregationalists, Anglicans, and Presbyterians – lost most of their market to upstart sects, particularly the Methodist and Baptists. (Congregationalists, Episcopalians, and Presbyterians, who in 1776 accounted for 55% of all the religious adherents, dropped to just 19% in 1850. Baptists and Methodists went from 19% percent to 55%.) At the same time, overall levels of religious adherence shot up. Reliable sources place church membership at a mere 17% of total population in 1776. But by 1850 this rate had risen to 34%. It now stands around 60%.

#### *V. The rush hour of the Gods: Japan, 1945*

Lest it appear that the stimulating effects of religious competition apply only to Western religion, consider the consequences of deregulation in Japan.

Before the end of World War II, the government strictly controlled religious activity in Japan. Shinto shrines were subsidized, Shinto priests were government officials, the Japanese Emperor was proclaimed a god, and participation in Shinto ceremonies was a matter of civic duty. Religious organizations could not legally exist without official recognition, and the police exercised the authority to suspend the activities or jail the leaders of religions deemed »undesireable.«

The Japanese defeat and Allied Occupation in 1945 led to the immediate repeal of all laws controlling religion, forced the Emperor to renounce his divinity, disestablished the Shinto religion, and granted unprecedented religious freedom. According to McFarland (1967: 4), these changes amounted to »the first laissez-faire religious policy in the history of Japan«.

The response was overwhelming. It was said that »New Religions rose like mushrooms after a rainfall« (McFarland 1967: 4). Only thirty-one religious groups had received official recognition in the decades before 1945, but by 1949 the number had grown to nearly 2,000. Although some of these had existed underground before the war, the new constitution allowed them to operate in the open and thereby attract far more members. Overall membership in non-traditional religions rose from about 4.5% of the population (2 million) in 1900, to more than 20% (21 million) in 1975. By all accounts, the greatest growth occurred in the years immediately following 1945, a period that came to be known as *kamigami no rasshu awa*, »the rush hour of the gods.«

#### *VI. Immigration and »Consciousness Reformation«*

Throughout the 1970s, no subject in the sociology of religion received as much attention as the rise of »New Religious Movements.« Scholars rushed to explain the »flowering« of Asian-born and Asian-inspired »cults,« and often pinned the blame on a »new religious

consciousness» among youth determined to reject Western materialism, individualism, and rationalism.

In truth, however, America's demand for Asian religion, and for immigrant Asian religious teachers, dates back more than a century. Around 1917 this process of cultural importation was blocked, when the U.S. Congress passed a series of exclusion acts that dramatically cut Asian immigration and denied potential citizenship to many Asians already in America.

When the acts were abolished in 1965, Asian immigration skyrocketed from about 20,000 in 1965 to 90,000 in 1970. Demand for Asian religion in the U.S. rose as the number of residents with Buddhist and Hindu backgrounds increased, but the supply-side effects were even more striking, as Asian-born teachers arrived to exploit the longstanding, pent-up demand for Asian religious teachings. According to Melton (1987: 52), »growth of the so-called new religions (primarily the old religions of Asia newly arrived in the West) can be traced to the movement of Eastern teachers to take up residency in the United States beginning in 1965.« Thus it was not so much that Asian faiths had struck a new chord in the American counterculture as that their growth had been artificially thwarted until then. With the immigration barrier removed, normal religious trade reasserted itself.

Failing to perceive the supply-shift in Asian religion, scholars postulated a radical demand shift: the baby-boomers' so-called »consciousness reformation.« This exaggerated the significance of the entire affair and contributed to cult controversies and »brainwashing« hysteria of the late 1970s and early 1980s. Sober studies eventually proved that the vast majority of Asian cults attracted fewer than 1,000 followers, and that even the largest and most successful never enlisted more than 10,000 (Melton 1987: 47). A different orientation, emphasizing rational choice, stable preferences, and (slightly shifted) market equilibrium would have better served the scholars, courts, and public.

## *VII. Conclusions*

The preceding accounts illustrate the critical role of governmental regulation in shaping religious trends and events. We have emphasized supply-side factors, and perhaps over-emphasized them, to counteract the tendency to reduce most religious events to unobservable changes in the popular psyche. Our examples came from diverse settings: contemporary Sweden, colonial America, post-war Japan, and more. One may easily unearth more such stories – in the U.S. where FCC and IRS rulings have significantly altered the fate of televangelists and new religious movements, in Latin America and the Phillipines (where »explosive« Protestant growth traces back to the elimination of state-established Catholic monopoly), and in Russia and Central Europe where the collapse of Soviet communism has stimulated membership in both alternative and conventional religions. The theory of markets and regulation has much to say about all these developments, and by extension, about religion in general.

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## 5. Comments on »Deregulating Religion: The Economics of Church and State« by Laurence R. Iannaccone, Roger Finke, and Rodney Stark

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Whatever the merits of secularization theories may be, they suffer from at least two shortcomings. First, they contain exactly the type of historical laws which Popper (1960) has convincingly criticized. And second, the United States do not fit the general law because they rank high on all indicators of rationalization and functional differentiation; therefore, they should display low levels of religious activities and beliefs which is obviously not the case. Regarding this, the *new economic approach of religion* (Iannaccone 1988; 1994; 1995a; Stark and Iannaccone 1994; Iannaccone et al. 1997) must appear as an convincing and attractive alternative to those who prefer deductive or nearly deductive theories. It does not share these weaknesses of secularization theories. It does not postulate a general trend of secularization but clearly states the conditions under which religiosity may decline: If the quality of religious supply deteriorates, religious participation will decline. Vice versa an improvement in supply will result in an increase in religious participation.

There have been methodological objections to the economic approach, too. Chaves (1995: 98), for instance, has argued that from principle of utility maximization alone one can derive nothing about »actual religious phenomena or behavior«. This is a somewhat ambiguous statement. If Chaves appeals to empirical facts, this is obviously true for all theories: We cannot derive facts from a theory alone but only from its empirical laws *and side conditions*. Perhaps Chaves wants to point out that the law of utility maximization *alone* has no empirical content. However, this again is not a peculiarity of the economic approach. Recent analyses of physical theories have shown that their fundamental laws alone are not testable. It is only the combination of fundamental laws, special laws, and restricti-